

## Message Text

LIMITED OFFICIAL USE

PAGE 01 ROME 04316 232142 Z

66

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 RSR-01 /146 W

----- 015874

R 231605 Z MAY 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 8912

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

LIMITED OFFICIAL USE ROME 4316

E. O. 11652: N/ A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

PASS TREASURY AND FRB

REF: ROME 3482

1. SUMMARY: HEAD OF BANK OF ITALY FOREIGN DEPARTMENT  
TOLD EMBOFF MAY 23 THAT PRESENT WEAKNESS OF LIRA PRIMARILY  
DUE TO DEFICIT ON CURRENT ACCOUNT AND THAT BOI HAD BEEN  
INTERVENING RECENTLY TO SUPPORT LIRA. ON MAY 22 DOLLAR  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ROME 04316 232142 Z

REGAINED SOME 8 POINTS LOST AGAINST LIRA ON MAY 21.  
PRELIMINARY DATA FOR APRIL SHOW A BALANCE OF PAYMENTS  
DEFICIT OF \$175 MILLION. END SUMMARY.

2. HEAD OF BANK OF ITALY FOREIGN DEPARTMENT, ERCOLANI,  
TOLD EMBOFF MAY 23 THAT PRESENT WEAKNESS OF LIRE PRIMARILY  
DUE TO NEGATIVE CURRENT ACCOUNT. IMPORTS HAVE INCREASED  
DUE TO ECONOMIC RECOVERY AND STOCKPILING AND PRICES OF  
IMPORTED GOODS HAVE RISEN SHARPLY AS RESULT OF LIRA  
DEPRECIATION. EXPORTS HAVE FALLEN OFF DUE TO DECLINES  
IN PRODUCTIVE ACTIVITY AS A RESULT OF STRIKES.  
COMMERCIAL ACCOUNT DEFICIT WAS NOT OFFSET BY SERVICES AND  
UNILATERAL TRANSFER RECEIPTS, WHICH TRADITIONALLY PRODUCE  
CURRENT ACCOUNT SURPLUS, BECAUSE EMIGRANT REMITTANCES  
AND TOURISM, HAVE NOT SHOWN SUFFICIENT GAINS. EVIDENTALLY,  
LIRE IS BEING PURCHASED BY TOURISTS AND ITALIAN EMIGRANTS  
OUTSIDE ITALY AT 4 - 5 PERCENT DISCOUNT BECAUSE OF PROHIBITION  
ON REPATRIATION OF ILLEGALLY EXPORTED BANKNOTES  
WITH RESULTING REDUCTION IN FOREIGN EXCHANGE RECEIPTS.  
QUESTION CONCERNING BOI AS WELL AS OTHERS INTERESTED IN  
ITALIAN ECONOMY IS WHETHER THIS CURRENT ACCOUNT DEFICIT  
IS GOING TO BE PERMANENT FACTOR OR WHETHER IT WILL TURN  
AROUND. BANK APPARENTLY INTERVENED IN COMMERCIAL LIRA  
MARKET TO CUSHION DECLINE OF LIRA DURING MAY. EARLIER IN  
MAY WHEN BOI BECAME AWARE NEED TO INTERVENE, IMI WAS  
ASKED TO BORROW \$200 MILLION ABROAD TO BOLSTER RESERVES.  
ON WHOLE, BOI CONSIDERS LIRA FLOAT HAS WORKED WELL DURING  
CURRENT MARKET TURMOIL. ERCOLANI EXPRESSED OPINION THAT  
INTERNATIONAL EXCHANGE MARKETS WERE SO NERVOUS THESE DAYS  
ANY BAD NEWS WAS LIABLE TO INCREASE PRESSURE ON DOLLAR  
AND THAT WATERGATE BY NO MEANS PRIMARY FACTOR.

3. PROVISIONAL FOREIGN EXCHANGE DATA FOR MONTH OF APRIL  
SHOW GLOBAL DEFICIT OF \$175 MILLION WHILE NET OFFICIAL  
RESERVES SHOW A GAIN OF \$117 MILLION. POSITIVE RESERVE  
POSITION DUE TO RECEIPT OF \$200 MILLION LOAN BY ICIPU.  
POSITION OF COMMERCIAL BANKS WORSENER BY \$292 MILLION DUE  
TO FURTHER REPAYMENTS OF EURODOLLAR BORROWINGS RESULTING  
FROM LARGE REVERSE SWAPS WITH EXCHANGE OFFICE ( REFTEL).

4. LIRA PROGRESSIVELY WEAKENED SINCE MAY 8 AGAINST  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ROME 04316 232142 Z

EC CURRENCIES WHILE IT SHOWED SLIGHT GAIN AGAINST DOLLAR.  
DOLLAR WEAKENED SUBSTANTIALY ON MAY 15 (6 POINT LOSS) AND  
MAY 21 (8.5 POINT LOSS). ON MAY 22 AVERAGE COMMERCIAL  
LIRA RATE WAS 588.50 ( COMPARED TO 581.20 ON PREVIOUS DAY)  
WHICH REPRESENTS A 1.2 PERCENT DEPRECIATION AGAINST SMITHSONIAN  
PARITY. AVERAGE DEPRECIATION OF LIRA AGAINST EC SNAKE  
CURRENCIES WAS 17.4 PERCENT ( BASED ON SMITHSONIAN PARITIES).

AVERAGE FINANCIAL LIRA RATE WAS 599.65 ON MAY 22 COMPARED WITH 595.95 ON PREVIOUS DAY. FINANCIAL RATE DISCOUNT AGAINST COMMERCIAL LIRA DECREASED FROM 2.5 PERCENT ON MAY 21 TO 1.8 PERCENT ON MAY 22. INCREASE IN SPREAD BETWEEN FINANCIAL AND COMMERCIAL LIRA AND WEAKENING OF FINANCIAL LIRA IS ATTRIBUTED TO CONTINUING OUTFLOW OF CAPITAL DUE TO CONCERNS OVER POOR PERFORMANCE OF COMMERCIAL BALANCE. HOWEVER, BECAUSE OF THINNESS OF FINANCIAL MARKET ( ONE- EIGHTH THAT OF VOLUME IN COMMERCIAL MARKET), MOVEMENTS OF FINANCIAL LIRA RATE ARE NOT CONSIDERED PARTICULARLY SIGNIFICANT.

5. ON MAY 22, THREE MONTHS AND SIX MONTH FORWARD RATES FOR FINANCIAL LIRA WERE 595.15 AND 594.15 RESPECTIVELY COMPARED TO A SPOT FINANCIAL RATE OF 599.65.  
VOLPE. DECONTROL 12/31/74

LIMITED OFFICIAL USE  
NMAFVVZCZ

\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 MAY 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** boyleja  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973ROME04316  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** n/a  
**Errors:** n/a  
**Film Number:** n/a  
**From:** ROME  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19730552/aaaajpwo.tel  
**Line Count:** 132  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 73 ROME 3482  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** boyleja  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 07 AUG 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <07-Aug-2001 by boyleja>; APPROVED <12-Sep-2001 by boyleja>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** <DBA CORRECTED> gwr 980227  
**Subject:** ITALIAN EXCHANGE MARKET DEVELOPMENTS  
**TAGS:** EFIN, IT  
**To:** BERN  
BONN  
BRUSSELS  
EB  
EC BRUSSELS  
LONDON  
OTTAWA

SECSTATE WASHDC

THE HAGUE

**Type:** TE

**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005